

**Analyst: Gavin Allen**

**Published 23 August 2011**

## Cedar Woods Properties Ltd (CWP \$3.60) Buy

---

- ▶ **Price Target:** \$6.13/sh
- ▶ **Reason For Update:** Full Year 2011 results
- ▶ **What we know:**

CWP have produced a full year 2011 NPAT of \$28m, essentially in line with guidance.

This is a stellar result up 63% on 2010 and reflecting a strong market during 2011 in Victoria in particular.

Full year dividend was \$0.23, yielding 6.7% per share.

Guidance has been issued looking for 2012 NPAT of \$34m, with \$130m in sales presold.

- ▶ **What we think:**

The result was in line, capping off a strong 2011 for CWP.

The guidance of \$34m NPAT for 2012 is in line with our forecasts, and will be necessary in our view for CWP to justify a decision made earlier in the year to knock back an offer price of \$5.05.

We continue to calculate market value NTA (before tax) of around \$6.00.

Notwithstanding weak sentiment in the property sector generally, the fundamentals in WA and Victoria remain generally positive, and CWP is well placed to participate in the first and second home buyer market as sentiment changes.

In the meantime however, CWP has \$130m of presales in place for 2012, essentially the revenues delivered during 2011, well supporting the NPAT guidance issued for 2012 of \$34m.

Longer term, property development is clearly cyclical, however CWP has the land bank to support further growth over the medium term in 2013 and 2014.

The question is appetite; clearly should sentiment remain weak for a sustained period this will impact presales heading into 2013, however on balance we expect demand for affordable product to remain steady, driven by the strong fundamentals, including low unemployment and continuing population growth.

- ▶ **Investment Case:**

CWP exhibits very strong fundamental attributes including:

- CWP trades on a 2011 PE of 7.9x (the actual result) and 6.4x the guided 2012 NPAT expectation of \$34m – property developers have typically traded between 10 and 12 times forward earnings.
- As indicated in previous research we calculate market value NTA beyond \$6.00 (before tax), all land bank sold as is, in an orderly manner tomorrow.
- We forecast CWP to yield 8% in 2012 fully franked.
- Management and board have a proven track record developing residential property.
- The land bank supports earnings for at least the next 4 or 5 years.
- Upside exists as the Town Centre at Williams landing is developed.

CWP is undervalued in our opinion, on any fundamental analysis, and will trade up with a shift in sentiment, which we expect over the next 6 months.

In the meantime the stock yields 8% full franked. Buy maintained.

**Sector:** Property Developer  
**Recommendation:** Buy

**Price (\$A):** 3.60  
**Target Price (\$A):** 6.13

**Market Cap (\$A):** 222.6m  
**Enterprise Value (\$A):** 281.8m

CEDAR WOODS PROPERTIES LTD (CWP)	YEAR END 30 JUNE				
	10A	11A	12F	13F	14F
<b>Income Statement</b>					
Sales	108.4	131.9	151.7	160.8	170.4
Fund management fees	0.0	0.0	0.0	0.0	0.0
Other	0.2	0.0	0.0	0.0	0.0
<b>Revenue</b>	<b>108.6</b>	<b>131.9</b>	<b>151.7</b>	<b>160.8</b>	<b>170.4</b>
COGS	-57.8	-68.6	-78.9	-83.6	-88.6
Other	-22.0	-21.8	-22.1	-23.1	-24.1
<b>EBITDA</b>	<b>28.8</b>	<b>41.5</b>	<b>50.7</b>	<b>54.1</b>	<b>57.7</b>
Depreciation & amortisation	-0.2	-0.2	0.0	0.0	0.0
Other non cash	0.0	0.0	0.0	0.0	0.0
<b>EBIT</b>	<b>28.6</b>	<b>41.3</b>	<b>50.7</b>	<b>54.1</b>	<b>57.7</b>
Net Interest income/(expense)	-2.0	-1.2	-1.3	-1.5	-1.3
Associates	0.1	0.0	0.0	0.0	0.0
Other income/(expense)	0.0	0.0	0.0	0.0	0.0
Abnormal items (pretax)	-2.0	0.0	0.0	0.0	0.0
<b>EBT</b>	<b>24.7</b>	<b>40.2</b>	<b>49.4</b>	<b>52.6</b>	<b>56.4</b>
Tax expense	-7.4	-12.0	-14.8	-15.8	-16.9
Minority interest	0.0	0.0	0.0	0.0	0.0
<b>Reported Earnings</b>	<b>17.3</b>	<b>28.1</b>	<b>34.6</b>	<b>36.8</b>	<b>39.5</b>
Dividends	-3.9	-7.3	-17.3	-18.4	-19.1
Adjustments (one off)	0.0	0.0	0.0	0.0	0.0
<b>Retained earnings</b>	<b>13.4</b>	<b>20.8</b>	<b>17.3</b>	<b>18.4</b>	<b>20.4</b>
<b>Normalized Net Profit</b>	<b>18.7</b>	<b>28.1</b>	<b>34.6</b>	<b>36.8</b>	<b>39.5</b>
<b>Fully Diluted Net Profit</b>	<b>18.7</b>	<b>28.1</b>	<b>34.6</b>	<b>36.8</b>	<b>39.5</b>
<b>Cash Flow (A\$m)</b>					
<b>Pretax Profit</b>	<b>24.7</b>	<b>40.2</b>	<b>49.4</b>	<b>52.6</b>	<b>56.4</b>
+ writedowns	0.2	0.2	0.0	0.0	0.0
+/- associates profit/loss	-0.1	0.0	0.0	0.0	0.0
+ associates dividends	0.0	0.0	0.0	0.0	0.0
Deferred development costs	0.0	-4.9	0.0	0.0	0.0
- Tax Paid	-7.4	-12.0	-14.8	-15.8	-16.9
+ inc (- dec) in provisions	-1.1	2.7	0.0	0.0	0.0
- Profit/+ loss on disposal	0.0	0.0	0.0	0.0	0.0
+/- Other	0.0	-1.4	0.0	0.0	0.0
<b>Gross Cashflow</b>	<b>16.3</b>	<b>24.8</b>	<b>34.6</b>	<b>36.8</b>	<b>39.5</b>
- Capital expenditure	0.0	0.0	0.0	0.0	0.0
+/- Changes in working capital	-27.2	-13.4	-33.6	-20.0	0.0
<b>Operating Free Cashflow</b>	<b>-10.8</b>	<b>11.4</b>	<b>0.9</b>	<b>16.8</b>	<b>39.5</b>
+/- Acq of subs/other investments	0.0	0.0	0.0	0.0	0.0
- Dividends	-3.9	-7.3	-17.3	-18.4	-19.1
+ Proceeds from equity raised	2.2	0.0	0.0	0.0	0.0
+/- Proceeds from disp of subs/FAs	0.0	0.0	0.0	0.0	0.0
+/- Minority interests	0.0	0.0	0.0	0.0	0.0
+/- Other	1.8	0.0	0.0	0.0	0.0
Net cashflow	-10.7	4.1	-16.4	-1.6	20.4
Net debt at beginning of period	-48.4	-59.2	-55.1	-71.4	-73.0
Net debt at end of period	-59.2	-55.1	-71.4	-73.0	-52.6
<b>Balance Sheet (\$m)</b>					
<b>Cash</b>	<b>0.5</b>	<b>0.4</b>	<b>2.1</b>	<b>0.5</b>	<b>20.9</b>
Receivables	0.8	4.0	4.0	4.0	4.0
Inventories	41.2	46.6	69.8	75.8	75.8
Other	0.0	9.6	9.6	9.6	9.6
<b>Current Assets</b>	<b>42.5</b>	<b>60.6</b>	<b>85.4</b>	<b>89.9</b>	<b>110.2</b>
<b>Receivables</b>	<b>7.4</b>	<b>8.9</b>	<b>8.9</b>	<b>8.9</b>	<b>8.9</b>
Inventories	147.8	155.8	162.8	176.8	176.8
Equity accounted investments	3.7	3.3	3.3	3.3	3.3
Property/Plant/Equipment	1.0	1.0	1.0	1.0	1.0
Deferred tax assets	0.0	0.0	0.0	0.0	0.0
<b>Other</b>	<b>3.2</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>
<b>Non Current Assets</b>	<b>163.1</b>	<b>173.0</b>	<b>180.0</b>	<b>194.0</b>	<b>194.0</b>
<b>Total Assets</b>	<b>205.6</b>	<b>233.6</b>	<b>265.4</b>	<b>283.8</b>	<b>304.2</b>
Payables	-28.0	-33.5	-30.0	-30.0	-30.0
Interest bearing liabilities	-19.5	0.0	0.0	0.0	0.0
Provisions	-5.5	-4.5	-4.5	-4.5	-4.5
Current tax liabilities	-2.0	-4.7	-4.7	-4.7	-4.7
Vendor of land borrowings	0.0	0.0	0.0	0.0	0.0
<b>Current Liabilities</b>	<b>-55.0</b>	<b>-42.7</b>	<b>-39.2</b>	<b>-39.2</b>	<b>-39.2</b>
Payables	0.0	0.0	0.0	0.0	0.0
Interest bearing liabilities	-40.2	-55.5	-73.5	-73.5	-73.5
Vendor of land borrowings	0.0	0.0	0.0	0.0	0.0
Provisions	-0.1	-0.5	-0.5	-0.5	-0.5
Deferred tax liabilities	-1.5	-5.4	-5.4	-5.4	-5.4
<b>Non Current Liabilities</b>	<b>-41.8</b>	<b>-61.4</b>	<b>-79.4</b>	<b>-79.4</b>	<b>-79.4</b>
<b>Total Liabilities</b>	<b>-96.7</b>	<b>-104.1</b>	<b>-118.6</b>	<b>-118.6</b>	<b>-118.6</b>
<b>Net Assets</b>	<b>108.9</b>	<b>129.6</b>	<b>146.9</b>	<b>165.3</b>	<b>185.7</b>
Contributed equity	40.5	44.7	44.7	44.7	44.7
Reserves	0.9	0.6	0.6	0.6	0.6
Retained profits	67.5	84.3	101.6	120.0	140.4
Minority Interests	0.0	0.0	0.0	0.0	0.0
<b>Total equity</b>	<b>108.9</b>	<b>129.6</b>	<b>146.9</b>	<b>165.3</b>	<b>185.7</b>

PERFORMANCE RATIOS	10A	11A	12F	13F	14F
<b>Growth and Margins</b>					
Revenue Growth	1%	22%	15%	6%	6%
EBITDA Growth	14%	44%	22%	7%	7%
EBIT Growth	13%	45%	23%	7%	7%
Normalized Net Profit Growth	18%	50%	23%	6%	7%
EBITDA margin	26%	32%	33%	34%	34%
EBIT margin	26%	31%	33%	34%	34%
Normalized net profit margin	17%	21%	23%	23%	23%
Effective tax rate	30%	30%	30%	30%	30%
<b>Liquidity</b>					
Capex/depreciation (x)					
Current ratio (x)	0.8	1.4	2.2	2.3	2.8
Quick ratio (x)	0.0	0.1	0.2	0.1	0.8
Receivable days	5	7	10	9	9
Inventory days	271	234	269	318	312
Payable days	124	164	147	131	124
<b>Risk Measures</b>					
Dividend cover (x)	4.4	3.9	2.0	2.0	2.1
Payout ratio (%)	42%	50%	50%	50%	48%
Net interest cover (x)	14.6	34.6	38.4	35.9	44.0
Net debt/equity (%)	54%	43%	49%	44%	28%
<b>Returns</b>					
Return on avg capital employed (%)	20%	25%	25%	24%	23%
WACC (%)					
Return on assets (%)	9%	12%	13%	13%	13%
Return on average equity (%)	17%	24%	25%	24%	23%
<b>SHARE DATA/VALUATION</b>					
<b>Share Data</b>					
Issued shares (m)	61	62	62	62	62
Weighted ave shares (m)	61	62	62	62	62
Fully diluted shares (m)	61	62	62	62	62
Basic EPS (c)	28.6	45.5	55.9	59.5	63.9
YoY change (%)	80%	59%	23%	6%	7%
Fully diluted EPS (c)	28.6	45.5	55.9	59.5	63.9
YoY change (%)	80%	59%	23%	6%	7%
Fully diluted normalised EPS (c)	30.9	45.5	55.9	59.5	63.9
YoY change (%)	13%	47%	23%	6%	7%
Dividend/share (c)	13	23	28	30	31
Franking (%)	100%	100%	100%	100%	100%
Gross cashflow/share (c)	27	40	56	60	64
NBV/share (c)	180	210	238	267	300
NTA/Share (c)	174	204	232	262	295
<b>Valuation</b>					
PER (Basic) (x)	12.6	7.9	6.4	6.0	5.6
PER (Fully diluted) (x)	12.6	7.9	6.4	6.0	5.6
PER (Fully diluted, normalized) (x)	11.6	7.9	6.4	6.0	5.6
P/CFPS (x)	13.3	9.0	6.4	6.0	5.6
Price/NBV (x)	2.0	1.7	1.5	1.3	1.2
Price/NTA (x)	2.1	1.8	1.6	1.4	1.2
Dividend Yield (%)	3.6%	6.3%	7.8%	8.3%	8.6%
Fully diluted normal 3 yr EPS Cagr (%)					
PEG ratio (x)					
EV/EBITDA (x)	9.8	6.8	5.6	5.2	4.9
EV/EBIT (x)	9.9	6.8	5.6	5.2	4.9
EV/Revenue (x)	2.6	2.1	1.9	1.8	1.7
NPV/SOP (A\$)					
WACC (%)					
<b>OTHER INFORMATION</b>					
Estimated Free Float					64%
12-mth High/Low (A\$/sh)					\$5.15 - \$2.14
Average Daily Volume (A\$m)					0.25
ASX Code					CWP.ASX
Next Result					Feb 12
<b>COMPANY DESCRIPTION</b>					
Cedar Woods is a residential property developer with large ongoing developments in Western Australia and Victoria.					